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SUBJECT: GERMANY'S DEFENSE BUDGET: SMALL INCREASES LIKELY
INSUFFICIENT FOR TRANSFORMATION GOALS

¶1. (SBU) SUMMARY. Despite a nominal increase of 1.64 billion euros over last year, the German defense budget for 2009 will fall short of the NATO target of two percent of GDP by only accounting for 1.5 percent GDP. Transformation remains significantly underfunded. Plans to free up money for investments by reducing operational expenses have been undermined by salary increases and pension expenditures eating into the MOD budget. However, the Bundeswehr will benefit from Germany's economic stimulus package, receiving at least 250 million euros to invest in its infrastructure. Contacts in the MOD offices responsible for planning and the budget present a uniformly up-beat outlook for the coming year despite the small budget increase. END SUMMARY

NOMINAL INCREASES WITH A BOOST FROM THE STIMULUS PACKAGE

¶2. (SBU) The German parliament approved the 2009 defense budget on November 28. With 31.09 billion euros, the German MOD will have, in nominal terms, approximately 1.64 billion euros more available than in 2008 (29.45 billion). This 5.6 percent nominal increase, which amounts to a three percent real increase when adjusted for inflation, is augmented by the extra money the MOD unexpectedly received as part of the recent economic stimulus package. However, the German defense budget, at approximately 1.5 percent of GDP, still remains far below the NATO target of two percent.

¶4. (U) Defense spending continues to lack support in the German public, reflecting a general aversion to the use of military force. While most defense experts agree that the MOD needs more money to fulfill its tasks, a recent poll by the Bundeswehr Institute for Social Sciences (released November 2008) revealed that only 26 percent of respondents support increasing the defense budget. For the last decade, approximately 50 percent of those polled have been in favor of keeping the defense budget unchanged. Despite this prevalent perception, MOD contacts proudly pointed to the fact that in 2005 they reversed the trend of yearly budget cuts and brought the budget back to the levels required for Bundeswehr transformation.

¶5. (U) Despite limited public support for defense spending, the second economic stimulus package, approved by the Bundestag on February 13, will somewhat benefit the MOD. The package does not allocate funds directly to the MOD budget, but the ministry will receive 250 million euros to speed up its previously underfunded efforts to renovate garrisons in western Germany, which have not been modernized since Germany's reunification 20 years ago because of higher priorities in the east. Although these additional funds are not directly spent on efforts to make the Bundeswehr more deployable, they indirectly free up resources that could be spent on transformation. The Bundeswehr will be able to spend an additional 226 million euros on other defense equipment related to transformation. Moreover, the

Bundeswehr also will receive a sum yet to be determined to modernize its information technology (IT) systems. An interagency process will determine in March how a total of 500 million euros will be distributed among the government agencies. This IT money will be in addition to the Bundeswehr's already very ambitious IT modernization project Herkules.

THE BUDGET AND TRANSFORMATION: TRIMMING EXPENDITURES

¶6. (U) In 2003, the MOD announced plans to transform the Bundeswehr into an expeditionary force, giving out-of-area deployments a clear priority as outlined in the "Bundeswehr Concept." It also made budget projections for the next four years. The decision to transform was based on the assumption that the MOD budget would increase in the following years. However, from 2003 through 2007, the Bundeswehr yearly received 1.5 billion euros less than predicted in 2003, according to the Chairman of the Bundeswehr Association. Although the 2009 budget meets the budget numbers the MOD projected back in 2003 for FY 2007 (25.2 billion euros plus four billion for pensions), the 2009 MOD budget increase will not be spent on items relevant to transformation, but rather on a salary increase for Bundeswehr soldiers and on new VIP aircraft.

¶7. (SBU) Given the lack of political support in the public and in the Bundestag to increase its budget significantly, the MOD's strategy has been to cut operational expense in order to free up resources for transformation. The MOD successfully reduced spending in this area from 17.1 billion in 2007 to 16.9 billion in 2008. However, the MOD and the Bundeswehr Association agree that the budget remains too low

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to implement transformation fully.

¶8. (SBU) The Bundeswehr also will be limited by its inability to procure any large ticket items before 2015, because ongoing defense investment programs have exhausted the budget until then. Ongoing programs include:

-- a) the Eurofighter (180 aircraft total, 18 billion euros, last delivery 2014),

-- b) the A400M air lift (60 aircraft, 8.6 billion euros),

-- c) the NH90 and MH 90 (navy version mid-size transport helicopters to replace the Bell UH-1 D helicopters with 122 NH90 and 30 MH90, 5.2 billion euros, last delivery 2015),

-- d) the "Tiger" Attack Helicopter (80 helicopters, 3.1 billion euros), and

-- e) the PUMA combat vehicle (410 vehicles, 3 billion euros total, to be delivered between 2010-2020).

¶9. (SBU) Despite the budget limitations until 2015, the delay of the A400M and helicopter programs could provide the Bundeswehr with some flexibility to fund an interim solution until the A400M becomes operational. Although the A400M project continues to have difficulties, MOD planning staff contacts advise that there is no alternative at this point to the A400M, given that this has been primarily a politically driven project. Also the MOD has to await the results of the technical reviews which will determine the final capabilities (i.e., range and payload) of the new aircraft in the second quarter. In order to cover its needs for current operations, such as ISAF in Afghanistan, the MOD is leasing civilian air lift, under the Strategic Airlift Interim Solution (SALIS) program (leased Russian/Ukrainian Antonovs). The MOD also is considering not purchasing the final tranche of 60 Eurofighters if another buyer can be found, potentially freeing up funds.

OUTLOOK: TRANSFERS LIKELY TO EAT INTO THE MOD BUDGET

¶10. (SBU) The Grand Coalition government is working on further reforms to the overall structure of the German budget, which could have negative impact on the long-term development of the MOD budget. All real estate owned by the federal government (including Bundeswehr installations) will be transferred to a special government agency, the Federal Real Estate Management Agency (BIMA), by 2011. After this transfer, the Bundeswehr would have to rent back its own installations from the BIMA. Even though the MOD would be given additional money to pay the rent, this is a budget item that could potentially balloon and have a negative impact on the MOD budget.

¶11. (SBU) In addition, MOD contacts advise that it remains unclear what will happen with the MOD's personnel who maintained its real estate. The MOD also is concerned that the new set-up would give the MOD less flexibility, such as the ability to prioritize military equipment over maintenance of military installations.

¶12. (SBU) A past example of this was the transfer of pension obligations in FY 2007 to all the respective government agencies, which made the MOD responsible for paying the pensions of all retired civilian and military personnel. While the MOD was compensated for the transfer back in 2007 (4 billion euros added to the MOD budget to cover the transfer), this appears to be a constantly growing budget item, since it grew from 4.03 to 4.43 billion euros. Additionally, MOD contacts are unable to predict what the long-term implications of the financial crisis will be for the MOD budget. However, they do not rule out the possibility that the Bundeswehr could be affected by budget cuts in the mid- to long-term.

¶13. (SBU) COMMENT. The German MOD continues to face the challenge of seeking more resources from a society that remains deeply skeptical about the military and about the need for German forces to be deployed overseas. The increases for 2009 are marginal and do not resolve the structural difficulties that confront Bundeswehr transformation. While the additional revenue from the economic stimulus package will allow the MOD to perform long over-due maintenance on Bundeswehr garrisons in western Germany, it does not directly support the procurement of new equipment needed to transform the Bundeswehr into a more expeditionary force.

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